VENTURE CAPITAL INVESTMENT TAX CREDIT

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History:

Venture capital investments serve as a major impetus for the development and expansion of large and small companies throughout the United States and worldwide. In an effort to encourage venture capital investments to be made in Indiana companies, the Indiana General Assembly enacted the Venture Capital Investment Tax Credit ("VCI Tax Credit") during the 2002 Special Session. The statutory provisions regarding the administration of the VCI Tax Credit Program were updated during the 2003 Regular Session of the Indiana General Assembly. The VCI Tax Credit is designed to allow a nonrefundable Indiana tax credit to taxpayers that provide qualified investment capital to qualified Indiana businesses. Indiana's businesses and overall economy benefit through the increased amount of capital investments and continued growth of business activities that occur in the state of Indiana as a result of the availability of the VCI Tax Credit.

Statutory Reference:

The statutory provisions that provide the authority for the VCI Tax Credit are found within Indiana Code 6-3.1-4 (the "VCI Tax Credit Statute"). The statute's effective date was January 1, 2003.

Eligibility:

The VCI Tax Credit Statute requires a "Qualified Indiana Business" to be an independently owned and operated business that is certified as a qualified Indiana business by the Indiana Department of Commerce ("IDOC").

Based upon the information contained in the Venture Capital Investment Tax Credit Application, which is filed with IDOC by applicant businesses seeking to be certified as a qualified Indiana business, IDOC shall certify that a business is a qualified Indiana business if the business:

1. Has its headquarters in Indiana.
2. Is primarily focused on commercialization of research and development, technology transfers, or the application of new technology, or which promotes the purposes of the VCI Statute.
3. Has had average annual revenue of less than ten million dollars ($10,000,000) in the two years preceding the year in which the qualified investment is made.
4. Has at least 50% of its employees residing in Indiana, or at least 75% of its assets located in Indiana; and,
5. Is not engaged in a real estate related business, insurance, accountant, physician or lawyer-related business, or oil and gas exploration.

Qualified Indiana businesses must also be properly registered to do business in Indiana at the Indiana Secretary of State's Office.

Certification Process for Qualified Indiana Businesses:

Indiana businesses that desire to be certified by IDOC as qualified Indiana businesses for purposes of the VCI Tax Credit must submit a Venture Capital Investment Tax Credit Application to IDOC. Applications may be obtained from IDOC at:

Indiana Department of Commerce
Development Finance Office - VCI Tax Credit
One North Capital, Suite 700
Indianapolis, Indiana 46204

Additionally, an application fee in the amount of Two Hundred Dollars ($200.00) must accompany the application at the time of its submittal to IDOC. Checks or money orders must be payable to the "Indiana Department of Commerce".

Upon the completion of IDOC's review of the application, and the submittals of any additional documentation requested by IDOC's VCI Tax Credit Certification Review Team during the certification process, IDOC shall issue to the applicant:

1. If the application is approved, an Indiana Venture Capital Investment Tax Credit Qualified Business Certification; or,
2. If the application is denied, an IDOC VCI Tax Credit Qualified Business Certification Denial.

Download Qualified Indiana Business Application:
http://www.in.gov/doc/businesses/PDFs/VCI_TaxCreditApp.pdf

Qualified Investment Capital Certification:

The term "qualified investment capital" means debt or equity capital that is provided to a qualified Indiana business after December 31, 2003. Therefore, capital investments eligible for the VCI Tax Credit cannot be made prior to January 1, 2004.

Taxpayers that propose to make a qualified investment into a Qualified Indiana Business must submit an application along with the taxpayer's investment plan to IDOC prior to the investment in order to receive a certification of the investment. The application may be obtained from the IDOC office, and must be submitted to IDOC at:

Indiana Department of Commerce
Development Finance Office - VCI Tax Credit
One North Capital, Suite 700
Indianapolis, Indiana 46204

Upon IDOC’s receipt and certification of a taxpayer’s investment plan, the taxpayer may make the investment within two years from the date of the investment plan’s certification. The taxpayer must provide proof of the investment to IDOC in order to receive the certification of the qualified investment. The taxpayer must file the certification of the qualified investment along with the taxpayer’s Indiana tax returns at the Indiana Department of Revenue at the time that the taxpayer files its Indiana tax returns in order to receive the VCI Tax Credit.

IDOC may only certify a total annual VCI Tax Credit amount of ten million dollars ($10,000,000). Taxpayers that submit applications for certification of qualified investment plans after the ten million dollar ($10,000,000) annual limit has been reached shall be promptly notified by IDOC that the proposed investment will not be eligible for the VCI Tax Credit during the calendar year in which the application was submitted.

> Download Application for Qualified Investments:
> http://www.in.gov/doc/businesses/PDFs/Qualified_Investment_App.pdf

Calculation of the VCI Tax Credit:

A taxpayer that provides qualified investment capital to a qualified Indiana business may claim the VCI Tax Credit against the taxpayer’s:

- State gross retail and use tax;
- Adjusted gross income tax;
- Financial institutions tax; and,
- Insurance premiums tax.

The taxpayer’s VCI Tax Credit equals twenty percent (20%) of the amount of the taxpayer’s qualified investment capital provided to a qualified Indiana business during a taxable year, subject to the qualified Indiana business? maximum available VCI Tax Credit amount referenced below and the annual maximum total VCI Tax Credit allowance amount also referenced below.

The maximum VCI Tax Credit amount available to a particular qualified Indiana business is twenty percent (20%) of the total amount of qualified investment amount provided to the qualified Indiana business.

If the amount of the allowed VCI Tax Credit claimed by a taxpayer on the taxpayer's tax returns in a particular taxable year exceeds the taxpayer’s state tax liability, the taxpayer may carry the excess over to the following taxable years. A taxpayer is not entitled to a carryback.

Pass through entities that are entitled to a VCI Tax Credit but which do not have a state tax liability may pass the credit through to its shareholders, partners or members as a percentage of the pass through entity’s distributive income to which the shareholder, partner, or member is entitled.

Interested businesses may contact IDOC with further inquiries at (317)

232-8800.